

To Members of the California State Senate,

I am signing Senate Bill 1190, which provides a \$60 million loan to the Vallejo City Unified School District, immediately provides for the Superintendent of Public Instruction to assume control of the district and to appoint an administrator to work on his behalf, and establishes the conditions by which the State will ultimately return control of normal district operations to the local governing board.

However, I am concerned with the provisions of this bill that would authorize the district to sell surplus facilities to reduce the balance of the emergency loan for operating costs. Under existing law, school districts that sell property are expected to use that money for future capital needs and are prohibited from qualifying for 100 percent State funding under the hardship formula of the school facilities program. This bill would only disqualify the district from full State hardship funding for two years. Two years is an insufficient time period to avoid establishing an undesirable precedent and could result in disadvantaging other districts with critical needs that would otherwise receive hardship funding. The state's school facility needs currently outstrip the supply of modernization and new construction bond funding thus making it important for schools to meet their local matching requirements. Therefore, I am signing this measure with the understanding that the author will work with the Administration to determine a more appropriate time period and introduce a cleanup measure to address this problem.

I am also signing the bill with the understanding that it contains language ensuring that the Vallejo City Unified School District is subject to the changes in the school fiscal accountability and emergency apportionment processes made by AB 2756, including changes related to the return of local governing board powers, Fiscal Crisis and Management Assistance Team assessments, improvement plans, and progress reports, which will be funded by the district.

Finally, I want to emphasize that I remain committed to my May Revision budget proposal to refinance the large school emergency loans, including the loan provided by this bill, through a new Infrastructure Bank mechanism to be authorized in legislation I anticipate will be enacted very shortly. Refinancing the loans by selling bonds secured by a lease of district property will relieve the State's General Fund of the burden of these loans. I have proposed that this district be held harmless from any increased cost of this new financing approach since it requested a loan before this new process was in place.

Sincerely,

Arnold Schwarzenegger